



CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM

QUARTERLY REVIEW

EXECUTIVE SUMMARY

*Quarter ended
September 30, 2003*

TABLE OF CONTENTS

Section	Page
A. AIM PROGRAM - OVERALL PORTFOLIO.....	1
Portfolio Summary	1
Performance	2
Portfolio Activity	2
B. MARKET OVERVIEW	3
C. PORTFOLIO OVERVIEW	5
Portfolio Diversification – By Strategy	5
Portfolio Geographic Diversification	6
Portfolio Company Diversification by Industry	7
California Focus	8
D. AUTHORIZED COMMITMENTS.....	9
E. JOINT PROGRAMS	10

TABLE OF CONTENTS (Continued)

Page

TABLES

Table 1 - Summary of AIM Portfolio	1
Table 2 - Amount Committed by Portfolio Strategy	5
Table 3 - Portfolio Company Distribution by Industry	7
Table 4 - California-Based Portfolio Diversification by Industry	8
Table 5 - Summary of Capital Commitments and Contributions	9

FIGURES

Figure 1 – AIM Program Cumulative Cash Flows Since Inception	2
Figure 2 – AIM Program Cumulative Distributions Since Inception	2
Figure 3 – Private Equity Funds Raised	3
Figure 4 – Private Equity Dollars Invested.....	4
Figure 5 – AIM Program – Portfolio Diversification by Strategy	5
Figure 6 – AIM Program – Portfolio Diversification by Geographic Location.....	6
Figure 7 – Portfolio Company Diversification by Industry	7

I. ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM (AIM)

A. AIM PROGRAM - OVERALL PORTFOLIO

This quarterly review has been prepared by The PrivateEdge Group ("PEG") at State Street Corporation and Staff, based on cash flow, valuation and activity data generated by PEG, Grove Street Advisors ("GSA"), and various AIM Program External Resources. Specific highlights of the portfolio are given below.

Portfolio Summary

- As of September 30, 2003, the AIM Program had 357 active commitments that totaled \$19.8 billion. Commitments to exited investments totaled \$1.8 billion, bringing since inception commitments to \$21.6 billion.
- Since inception, the AIM Program has made contributions of \$13.2 billion and received distributions of \$8.5 billion. Of the \$8.5 billion in distributions, \$4.9 billion represents realized gains, income and dividends. As the portfolio matures and distributions grow, the Program is becoming self-sustaining.
- Due to the young relative age of the AIM portfolio, a large amount of the committed capital has not been called. At September 30, 2003, 39% of the active capital commitments, or \$7.7 billion, remained unfunded.

SUMMARY OF AIM PORTFOLIO SINCE INCEPTION (MARCH 1990) THROUGH SEPTEMBER 30, 2003 (US\$ IN MILLIONS)

	Number of Commitments ⁽¹⁾	Capital Committed	Capital Contributed ⁽²⁾	Reported Value ⁽³⁾	Distributions		Investment Multiple
					Return of Capital	Realized Gain ⁽⁴⁾	
Total Active Commitments⁽⁵⁾	357	\$19,757.6	\$12,070.3	\$7,583.1	\$2,727.1	\$3,961.4	1.2x
Total Exited Commitments⁽⁶⁾	27	--	\$1,094.2	--	\$860.1	\$924.3	1.6x

⁽¹⁾ Represents all authorized commitments as of September 30, 2003, including those commitments that have been authorized but not yet funded.

⁽²⁾ Includes fees in excess of committed capital.

⁽³⁾ Based on values reported by the general partners as of September 30, 2003.

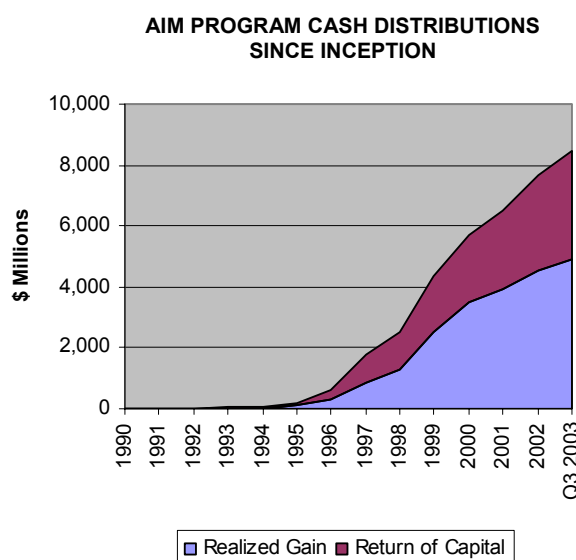
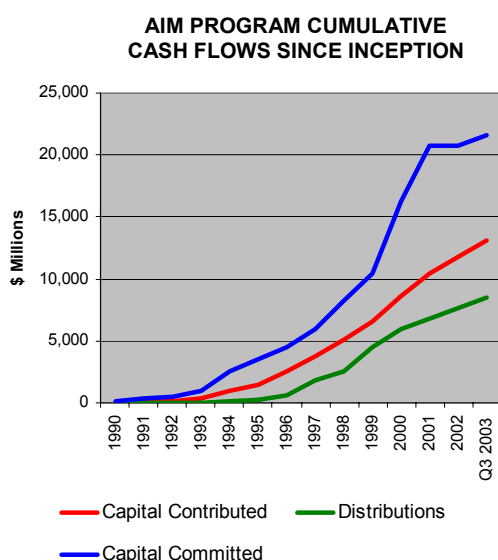
⁽⁴⁾ Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

⁽⁵⁾ An active commitment refers to an investment that has not reached the end of its legal term.

⁽⁶⁾ An exited commitment is defined either as a commitment that has ended in accordance with the terms of the partnership agreement or a commitment in which the limited partners have chosen to end prematurely due to unforeseen circumstances.

Performance

- Fully realized investments have provided a since inception return of 19.2%. This represents a 1.6x return of contributed capital.
- As of September 30, 2003, the weighted average age of all of the investments in the AIM portfolio was 4.6 years. Consequently, a large portion of the portfolio is in the early stage of its investment life, when payment of fees has not been offset by young investments that are held at cost. This is known as the J-Curve effect.
- To address the young age of the partnership portfolio, CalPERS adopted a short-term benchmark, the Venture Economics Custom Young Fund Universe. The benchmark measures performance of the AIM partnerships in the first five years of life against a similarly aged universe of Venture Economics data. As of September 30, 2003, the AIM young fund net internal rate of return ("IRR") was (3.9%), which exceeded the preliminary estimate of the Custom Young Fund Universe median return of (7.8%) by 380 basis points. The AIM Program is displaying solid returns for a young portfolio.
- Since inception to September 30 2003, the AIM Program generated a net IRR of 9.1%. At September 30, 2003, the public market ten-year rolling average return for the CalPERS' Custom Wilshire 2500 Index was 9.4%. Whereas the public markets had begun to recover by the end of third quarter, there is typically a lag in the valuations in the private market relative to the public markets.



Portfolio Activity

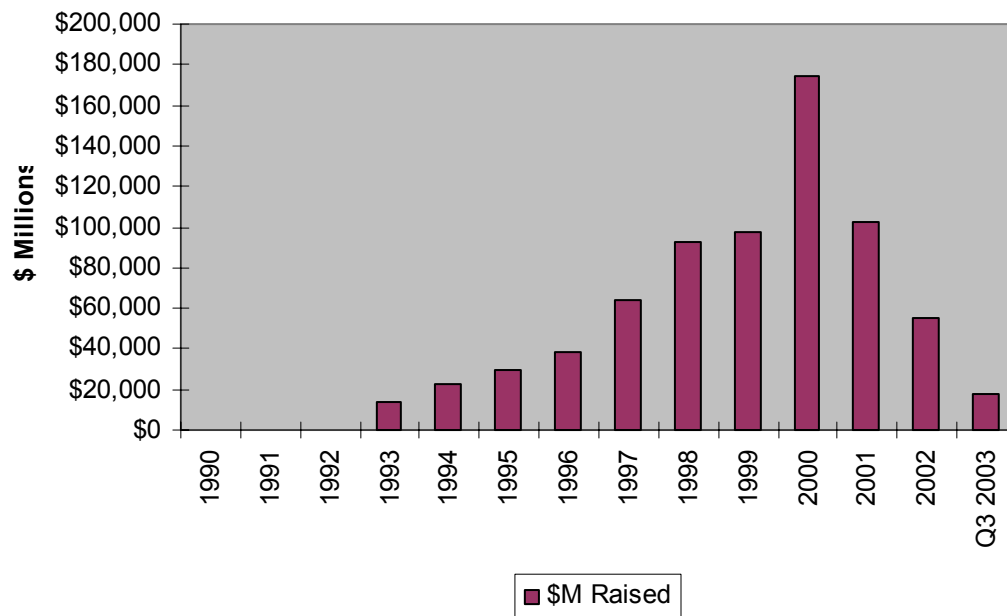
- Four new commitments were authorized during the third quarter of 2003 for a total of \$278.6 million.
- During the third quarter of 2003 the AIM Program received 82 investment opportunities. During the same period, GSA reviewed 102 investment opportunities on behalf of CEV I, II and III. Both the AIM Program and GSA may have reviewed some of the same opportunities.
- During the quarter, the AIM Program contributed \$387.1 million to and received distributions of \$384.1 million from the underlying portfolio. Of the \$384.1 million in distributions, \$168.6 million represents income and realized gains. Year to date the AIM Program contributed \$1,294.1 million and received distributions of \$762.0 million. Of the \$762.0, \$361.8 million represents income and realized gain.

B. MARKET OVERVIEW

Market

- According to the Private Equity Analyst, \$17.8 billion was committed to 82 funds during the first nine months of 2003. The commitment pace is down from that of the first nine months of 2002 when \$25.4 billion was committed to 113 funds. Venture capital fundraising was down 54% from the first nine months of 2002 with \$2.1 billion committed in the first nine months of 2003. Buyout fundraising was down 36% from the first nine months of 2002 with \$9.9 billion committed in the first nine months of 2003.

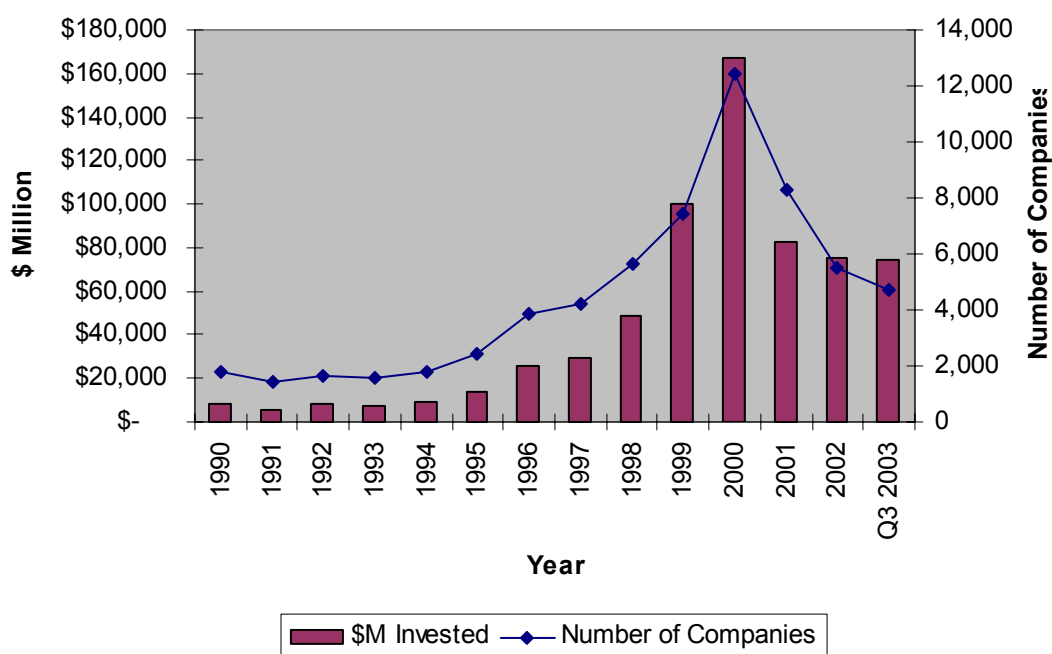
Funds Raised (All Private Equity)



Source: Private Equity Analyst

- Deal activity for all private equity during the first nine months of 2003 increased in dollar amount, but decreased in the number of companies receiving funding compared to the first nine months of 2002. According to Venture Economics, 4,737 companies received \$74.6 billion in funding in the first nine months of 2003, compared with 5,184 companies that received \$51.4 billion in the first nine months of 2002.
- In the first nine months of 2003, venture capital activity increased in dollar amount, but the number of companies receiving funding declined. According to Venture Economics, 4,207 companies received \$28.7 billion in venture funding in the first nine months of 2003, compared with 4,595 companies that received \$28.5 billion for the same period a year ago. During the first nine months of 2003, buyout activity increased in dollar amount due to larger deal sizes. According to Venture Economics, 1,377 companies received \$53.8 billion in buyout funding in the first nine months of 2003, compared with 1,457 companies that received \$25.2 billion for the first nine months of 2002.⁽⁸⁾

Dollars Invested (All Private Equity)



Source: Venture Economics

⁽⁸⁾ According to Venture Economics, certain investments meet the definitions for both Venture and Buyout categories and are included in the total for each category. For the purposes of determining the Total Private Equity investments for the quarter, these investments are included only once. As such, the sum of Venture and Buyout categories exceeds the Total Private Equity figures for the quarter by the amounts of the investments that meet both Venture and Buyout definitions.

C. PORTFOLIO OVERVIEW

Portfolio Diversification – By Strategy

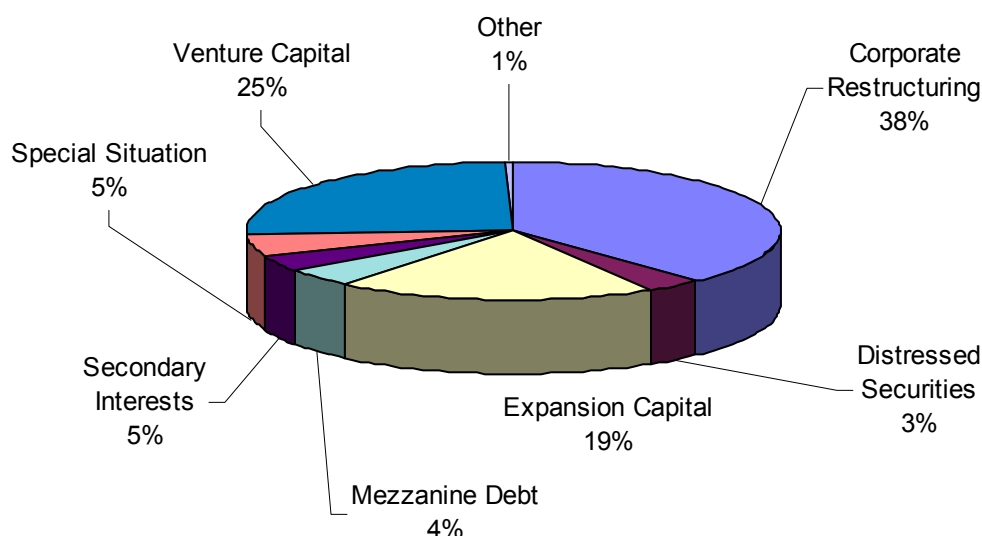
The AIM Program invests in all types of private equity and is well diversified. The current commitments are generally consistent with the diversification within the private equity marketplace. Thus, a majority of the active AIM Program commitments are to Corporate Restructuring, Venture Capital and Expansion Capital.

ACTIVE COMMITMENTS BY PORTFOLIO STRATEGY (US\$MILLION)

	<i>Active Commitments</i>	<i>Contributions</i>	<i>Reported Value</i>	<i>DISTRIBUTIONS</i>	
				<i>Return of Capital</i>	<i>Realized Gain⁽⁹⁾</i>
Corporate Restructuring	\$7,534.8	\$4,882.0	\$3,326.7	\$1,132.6	\$1,887.3
Distressed Securities	\$655.0	\$441.3	\$471.5	\$100.9	\$78.2
Expansion Capital	\$3,832.8	\$2,438.2	\$1,329.3	\$559.5	\$743.2
Mezzanine Debt	\$875.6	\$625.1	\$346.9	\$153.9	\$165.3
Secondary Interests	\$732.3	\$537.5	\$278.7	\$342.3	\$65.3
Special Situation	\$1,021.4	\$559.1	\$355.3	\$154.8	\$190.8
Venture Capital	\$5,005.7	\$2,486.6	\$1,375.2	\$278.8	\$823.7
Other	\$100.0	\$100.6	\$99.5	\$4.3	\$7.6
Total	\$19,757.6	\$12,070.3	\$7,583.1	\$2,727.1	\$3,961.4

⁽⁹⁾ Realized gains include interest, dividends and gains distributed by the general partners.

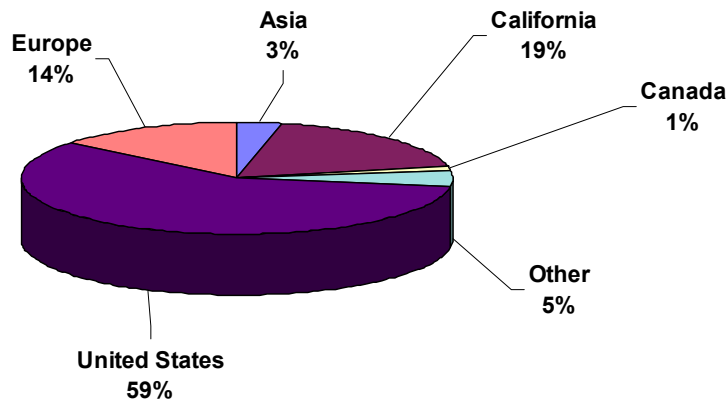
AIM Program - Portfolio Diversification by Strategy As A Percentage of Active Commitments As of September 30, 2003



Portfolio Geographic Diversification

As of September 30, 2003, CalPERS' AIM portfolio was well diversified by geographic region. By reported market value, 19% of the investments were in companies with their primary locations within California and 59% of the investments were in non-California domestic areas. International portfolio companies represented 22% of the total reported market value of all portfolio companies.

**Portfolio Diversification by Geographic Location
As Measured by CalPERS' Market Value Exposure
As of September 30, 2003**



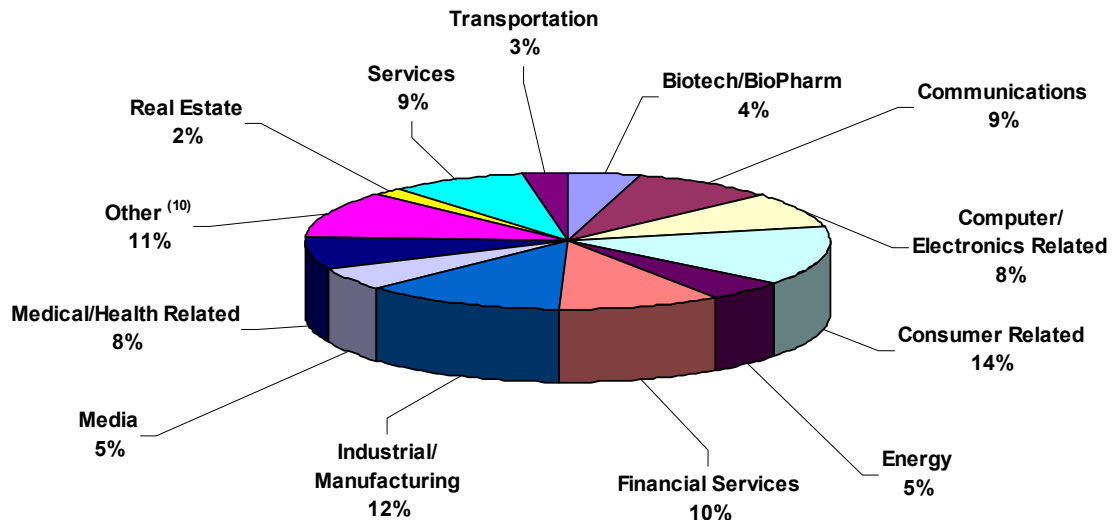
Portfolio Company Diversification by Industry

As of September 30, 2003, the CalPERS AIM portfolio was broadly diversified by industry. The table below outlines the current reported value of the portfolio companies held in the AIM portfolio. Within the overall portfolio, the largest segments were consumer-related, industrial/manufacturing and financial services.

PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF SEPTEMBER 30, 2003

Industry	Reported Value (US\$ MILLIONS)
Biotechnology/BioPharma	\$ 317.1
Communications	637.3
Computer/Electronics -Related	605.6
Consumer-Related	990.0
Energy	359.2
Financial Services	727.1
Industrial/Manufacturing	891.7
Media	371.1
Medical/Health-Related	542.8
Other ⁽¹⁰⁾	815.2
Real Estate	124.1
Services	607.1
Transportation	191.4
Total	\$7,179.7

Portfolio Diversification by Industry As Measured by CalPERS' Market Value Exposure As of September 30, 2003



⁽¹⁰⁾ Includes CalPERS' investments held through fund-of-funds.

California Focus

As of September 30, 2003, the AIM Program had \$7.8 billion in commitments that were either headquartered or had a major presence in California. Commitments to funds that focus primarily on investments in California were \$1.6 billion. In addition, many AIM Program partnerships actively make investments in California. Currently, California-based companies represent 19% of the reported market value of the AIM portfolio.

CALIFORNIA-BASED PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF SEPTEMBER 30, 2003

Industry	Reported Value (US\$ IN MILLIONS)
Biotechnology/BioPharma	\$ 112.5
Communications	90.3
Computer/Electronics Related	267.2
Consumer-Related	245.4
Energy	1.4
Financial Services	139.4
Industrial Products/Manufacturing	38.7
Media	59.3
Medical/Health-Related	154.0
Other ⁽¹¹⁾	51.7
Real Estate	41.6
Services	90.6
Transportation	34.2
Total	\$1,326.3

⁽¹¹⁾ Includes CalPERS' investments held through fund-of-funds.

The AIM Program includes a California-oriented component that is designed to take advantage of a number of factors conducive to targeted investment activity within the state: (i) the unique size characteristics of the California economy; (ii) the existence of a "capital gap" for certain business segments within the state; and (iii) the ability to construct a diversified array of investment vehicles that reflects the state's large number of business entities and the wide range of development cycles that they represent.

D. AUTHORIZED COMMITMENTS

During the third quarter of 2003, the AIM Program authorized four new investments, totaling \$278.6 million in new commitments.

Commitments and Contributions Since Inception

Since inception to September 30, 2003, CalPERS has contributed capital of \$13.2 billion. As expected, the earlier vintage year partnerships have the highest deployment percentage as it typically takes some time for each partnership to call down the full amount of committed capital. The total capital committed by vintage year is presented in the table below.

**SUMMARY OF CAPITAL COMMITMENTS AND CONTRIBUTIONS
(US\$ IN MILLIONS)**

<i>Vintage Year</i>	<i>Capital Committed</i>	<i>Capital Contributed</i>	<i>Reported Value</i>	<i>Return of Capital</i>	<i>Realized Gain⁽¹²⁾</i>	<i>Investment Multiple</i>
1990	\$125.3	\$121.9	\$5.6	\$118.6	\$169.1	2.4
1991	171.7	179.6	0.8	149.6	356.6	2.8
1992	160.0	156.6	13.3	101.7	219.3	2.1
1993	563.0	560.1	138.0	390.9	478.1	1.8
1994	1,494.2	1,400.3	373.4	761.7	1,177.4	1.7
1995	1,197.9	1,122.0	369.9	491.1	831.0	1.5
1996	1,155.9	1,127.4	349.7	463.5	617.6	1.3
1997	1,111.9	1,064.4	753.5	178.0	375.2	1.2
1998	2,204.0	2,014.5	1,315.5	477.5	365.5	1.1
1999	1,331.3	1,067.2	708.4	206.6	96.1	1.0
2000	4,378.9	2,185.1	1,514.1	168.7	149.6	N/M
2001	5,119.7	1,767.8	1,669.3	64.7	41.3	N/M
2002	1,050.4	224.5	221.6	7.3	7.6	N/M
2003	954.4	173.0	150.0	7.3	1.3	N/M
Authorized⁽¹³⁾	\$586.6	-	-	-	-	N/A
Total	\$21,605.2	\$13,164.4	\$7,583.1	\$3,587.2	\$4,885.7	1.2

⁽¹²⁾ Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

⁽¹³⁾ These commitments have been authorized subject to satisfactory final due diligence, negotiation of investment terms and conditions and completion of all legal documents, including opinions of counsel regarding the preservation of CalPERS' limited liability status, and no material changes to the investment opportunity.

E. JOINT PROGRAMS

Joint AIM/Real Estate Technology Program

In May 2000, the CalPERS Investment Committee approved the creation of the \$500.0 million Joint Real Estate/AIM Technology Program. Although the funds for this program are allocated through the Real Estate unit, AIM is involved in monitoring the program. As of September 30, 2003, contributions totaled \$233 million.

Absolute Return Strategy (ARS) - Joint AIM/Public Markets Hedge Fund Program

In October 2000, the CalPERS Investment Committee approved a \$1 billion joint AIM/Public Markets hedge fund program. Although the funds for this program are allocated through the Public Equities unit, AIM is actively involved with the management of the program. At September 30, 2003, CalPERS had invested \$690.0 million in 14 hedge funds. CalPERS is currently working to include additional advisors to the ARS program.